71.206
72SD
990

Office of the Legislative Auditor

State of Montana

Report to the Legislature

April 1991

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1990

STATE DOCUMENTS COLLECTION

SEP 24 1996

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Montana School for the Deaf and Blind

This report contains four recommendations pertaining to compliance with state laws and regulations. These recommendations address:

- Revenue reporting requirements.
- Safeguarding student checks.
- Employment Placement.
- Proper recording of fixed assets and expenditures.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

90-19B

Montana State Library
3 0864 1003 2406 3

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Greg Jergeson, Chairman
Senator Tom Keating
Senator Paul Svrcek
Senator Gene Thayer

Representative John Cobb, Vice Chairman
Representative Larry Grinde
Representative Mike Kadas
Representative Robert Pavlovich

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

April 1991

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and Blind for the two fiscal years ending June 30, 1990. This report contains four recommendations, relating to compliance with state laws and regulations. These recommendations address revenue reporting requirements, safeguarding student checks, employment placement requirements, and proper recording of assets and expenditures. The school's written response to the audit recommendation is included in the back of the audit report.

We thank the superintendent and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Digitized by the Internet Archive
in 2012 with funding from
Montana State Library

http://archive.org/details/montanaschoolfor1990mont

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1990

Montana School for the Deaf and Blind

Members of the audit staff involved in this audit were Maryrose Beasley, Scott Hoversland, Jim Manning, and Gary Trescott.

Table of Contents

	Elected, Appointed, and Administrative Officials	ii
	Summary of Recommendations	iii
Introduction	Introduction	1
	Background	1
Prior Audit Recommendations	Prior Audit Recommendation	3
Findings and Recommendations	Reporting Revenue Activity	4
	State Compliance	5
	Employment Placement	5
	Safeguarding Student Checks	6
	Accounting Issues	7
Disclosure Issues	Converting State Assets to the MSDB Foundation	8
Independent Auditor's Report & Agency Financial Schedules	Summary of Independent Auditor's Report	10
	Independent Auditor's Report	11
	Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1990	13
	Schedule of Budgeted Revenue & Transfers In - Estimate & Actual for the Two Fiscal Years Ended June 30, 1990	14
	Schedule of Budgeted Program Expenditures By Object and Fund - Budget and Actual for the Fiscal Year Ended June 30, 1990	15
	Schedule of Budgeted Program Expenditures By Object and Fund - Budget and Actual for the Fiscal Year Ended June 30, 1989	16
	Schedule of Additions and Deductions to Agency Fund Property Held in Trust for the Two Fiscal Years Ended June 30, 1990	17
	Notes to the Financial Schedules	18
Agency Response	Montana School for the Deaf and Blind	25

Elected, Appointed, and Administrative Officials

Board of Public Education

Stan Stephens, Governor*

Nancy Keenan, Superintendent of Public Instruction*

John Hutchinson, Commissioner of Higher Education*

		Term Expires
William Thomas, Chairperson	Great Falls	1993
C. John Kinna, Vice Chairperson	Helena	1996
Alan Nicholson	Helena	1992
Thomas A. Thompson	Heart Butte	1994
Anita A. Johnson	Lewistown	1995
Ron Fernelius	Missoula	1997
Sarah Listerud	Wolf Point	1998
Kathryn Van Tighem, Student Representative	Helena	1991

*ex officio members

Montana School for the Deaf and Blind

Bill Prickett, Superintendent

Bill Sykes, Business Manager

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the school's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the school:

A. Collect federal indirect costs to the fullest extent possible by requesting reimbursement on a timely basis. 4

School Response: Concur. See page 25.

B. Record indirect costs in the proper fund as required by state policy. 4

School Response: Concur. See page 25.

Recommendation #2

We recommend the school:

A. Implement procedures to gather and record employment data as required by state law, or 6

School Response: Concur. See page 25.

B. Seek legislation to amend section 20-8-116, MCA. 6

School Response: Concur. See page 25.

Recommendation #3

We recommend the school ensure all checks are endorsed and deposited in accordance with state law and policy. 6

School Response: Concur. See page 25.

Recommendation #4

We recommend the school record fixed assets and student travel in accordance with state policy. 7

School Response: Concur. See page 26.

Introduction

Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and Blind for fiscal years 1988-89 and 1989-90. The objectives of the audit were to:

1. Determine if the school complied with applicable state and federal laws and regulations.
2. Make recommendations for improvement in management and internal control of the school.
3. Determine if the school's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1990.
4. Determine the implementation status of prior audit recommendations.

This report has four recommendations to the school. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing these recommendations.

Background

The Montana State School for the Deaf and Blind (MSDB) was founded in 1893 as part of the Montana State Training School at Boulder. In 1937 the school was transferred to Great Falls and established as a separate and independent institution of the state of Montana. The school is under the general supervision, direction, and control of the Board of Public Education. Board members are appointed by the governor and confirmed by the Senate.

The purpose of the school is to educate children whose hearing or vision is impaired such that they cannot be properly taught in the public schools of the state. In addition, the school serves deaf and blind children throughout the state through its itinerant teacher program. This program includes three regional resource consultants who travel throughout the state to consult with parents and teachers of deaf and blind children. The following schedule shows the number of students served and full-time equivalent employees at the school during the audit period.

Table 1
MSDB Students and Staff

	Fiscal 1988-89	Fiscal 1989-90
Children on campus	66	58
Children off campus	50	48
Outreach/itinerant program	218	194
Total Students Served	334	300
Full-time Equivalent Staff	84.63	84.54

Source: Prepared by the Office of the Legislative Auditor from MSDB records

The school works closely with the Montana School for the Deaf and Blind Foundation, Inc. whose purpose is to benefit children and youths with vision or hearing impairments served by the school. The Montana School for the Deaf and Blind Foundation, Inc. was formed in October 1983, pursuant to section 20-8-111, MCA. The foundation has a contract with the Board of Public Education to hold and manage assets for the benefit of the Montana School for the Deaf and Blind. It files reports with the board documenting contract fulfillment. The board appoints the directors of the foundation. At least one member of the foundation is also a member of the Board of Public Education. The superintendent of the school is the executive director for the foundation. Foundation activity is not reflected on the financial schedules for the Board of Public Education or the Montana School for the Deaf and Blind.

Prior Audit Recommendation

Prior Audit Recommendation

The previous audit of the Montana School for the Deaf and Blind (fiscal years 1986-87 and 1987-88) contained one recommendation. The school has not implemented the recommendation related to employment placement (see page 5).

Findings and Recommendations

Reporting Revenue Activity

During our audit of the Montana School for the Deaf and Blind, we noted errors made by school officials in collecting and reporting of federal revenue. Some of these errors were the result of misinformation received by the staff. The following describes two instances of errors found during our audit.

The MSDB requests federal reimbursement through the Office of Public Instruction for indirect costs of the federal programs it administers. The school did not collect federal indirect costs to the fullest extent possible in fiscal year 1989 as required by state law, and as a result did not receive $3,645 of federal money. School officials realized they had incorrectly calculated the amount of eligible indirect costs, and subsequently requested reimbursement. The request was denied because it was made late in the following fiscal year and no project funds were available.

The school receives and properly records federal money in the Special Revenue Fund and then transfers the Statewide Cost Allocation Plan (SWCAP) portion to the General Fund, in the next fiscal year. Per state policy, the portion of the recovery attributable to the SWCAP should be recorded in the General Fund prior to end of the fiscal year. School officials indicated that making the transfer in the next year allowed them to use an exact amount rather than an estimate.

Recommendation #1

We recommend the school:

A. **Collect federal indirect costs to the fullest extent possible by requesting reimbursement on a timely basis.**

B. **Record indirect costs in the proper fund as required by state policy.**

State Compliance

The following two items describe instances of noncompliance with state laws or policies. The school administration is aware of proper procedures, but in the cases described, either chose alternative action or did not communicate the proper procedures to appropriate personnel.

Employment Placement

As noted in our prior audit, the superintendent of the Montana School for the Deaf and Blind is not gathering and recording data to assist in locating suitable employment for MSDB graduates as required by section 20-8-116, MCA. The superintendent is also required to coordinate the work with other state and federal agencies.

School officials stated prior to 1987 this function was performed by a career education coordinator who devoted approximately 25 percent of her time gathering data and career placement. In their response in our prior audit, officials noted the legislature eliminated an FTE increase request for a career education coordinator position for the 1991 biennium. Officials stated due to other position reductions, it was not feasible to reassign the career placement duties to another staff member. In the 1993 biennium budget submitted to the Office of Budget and Program Planning (OBPP) the school requested a .73 FTE career education coordinator position costing $21,435 each year of the biennium. School officials stated the request was not approved by OBPP. Officials stated the school will continue to be in noncompliance unless the school receives additional FTE or the requirement is altered or eliminated.

Recommendation #2

We recommend the school:

A. Implement procedures to gather and record employment data as required by state law, or

B. Seek legislation to amend section 20-8-116, MCA.

Safeguarding Student Checks

Student checks received in the cottages are not restrictively endorsed upon initial receipt. They are kept in the cash box in the cottage safe for up to two weeks prior to going to the business office for endorsement and deposit in the students' accounts. We found $208 in student checks were not endorsed when we examined the checks. School officials stated they receive an average of $75 to $100 in student checks each week. Per MOM 2-1210, negotiable instruments shall be restrictively endorsed at the time of initial receipt. State law (section 17-6-105, MCA) requires, at a minimum, all moneys shall be deposited at least weekly. The school has responsibility in a trustee capacity to ensure student moneys are adequately controlled. The present system at MSDB is not in compliance with state law and increases the risk of loss or misuse of student funds.

Recommendation #3

We recommend the school ensure all checks are endorsed and deposited in accordance with state law and policy.

Accounting Issues

During our audit of the Montana School for the Deaf and Blind, we noted errors in recording assets and expenditures.

Computer equipment valued at $9,429, and donated to two individual students, was recorded by the school as state assets. Improvements of $1,849 to the school property which were donated by the foundation were not recorded by the school. State policies require fixed assets belonging to an entity be recorded in the general fixed asset account group. School officials did not realize the equipment belonged to the students until after it was recorded. The improvements were overlooked, and therefore not recorded. As a result of these two errors, net fixed assets on SBAS were overstated by $7,580 at June 30, 1990.

Expenditures for students traveling home were coded as consultant and professional services. Student travel expenses should be recorded as nonemployee travel. As a result, consultant and professional fees were overstated, and travel was understated by $51,894 and $47,274 in fiscal years 1988-89 and 1989-90, respectively.

Recommendation #4

We recommend the school record fixed assets and student travel in accordance with state policy.

Disclosure Issues

Converting State Assets to the MSDB Foundation

In 1951 the state purchased six lots near the school and subsequently constructed three houses on the land. The original cost of the land was $1,050. Of this amount, $550 was donated money. In September of 1989, MSDB officials allowed the MSDB Foundation to begin collecting 52 percent of the rental income from the property. School officials contend the portion of the land acquired with donated money ($550 of $1,050) supports the foundation's 52 percent interest. While the property was purchased, in part, with donated money, it is no longer a donated asset, since the original donation was spent for the purchase of the land and at that time lost its identity as a donation. School officials cite section 20-8-111, MCA, as authority for the Board of Public Education to ". . .directly or through contract. . . receive, hold, manage, use and dispose of any and all real property made over the state or the board. . ."

The MSDB Foundation reported 52 percent ownership of the property in its annual financial reports for fiscal years 1989 and 1990. However, the assertion of ownership by the foundation is not supported because legal title to the property is recorded in the name of the state. The State Board of Land Commissioners must approve any transfer of ownership of real property held in the name of the state. The result of an ownership transfer to the foundation would be the loss of state property, currently valved at approximately $118,000. Rental income collected directly by the foundation through June 30, 1990 is $10,867. Because legal title to the property is still held in the name of the state, we make no recommendations at this time, but disclose this item for informational purposes.

Independent Auditor's Report & School Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

The financial schedules are prepared from SBAS without adjustments for errors noted during the audit. The Schedule of Agency Fund Additions and Deductions is prepared from the school's subsidiary accounting system without adjustments for errors noted during the audit. This is done to allow the reader to determine the degree of reliance that can be placed on the information recorded in the accounting records.

The qualified opinion on the schedules means the reader should use caution when using the information presented. Some of the revenue and expenditures are not presented in conformity with state accounting policy.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana School for the Deaf and Blind for each of the two fiscal years ended June 30, 1989 and 1990, as shown on pages 13 through 22. The information contained in these schedules is the responsibility of the school's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

The school did not record all rental revenue earned in fiscal years 1988-89 and 1989-90, in the General Fund. As a result, rental, leases, and royalties on the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual was understated $4,975 and $5,892 in fiscal years 1988-89 and 1989-90, respectively.

The school did not properly classify rental revenue received during fiscal years 1988-89 and 1989-90, in the General Fund. As a result, miscellaneous income was overstated and rental income was understated on the Schedule of

Budgeted Revenue and Transfers In - Estimate and Actual by $2,700 and $4,675 in fiscal years 1988-89 and 1989-90, respectively.

The school did not properly classify expenditures for student travel during fiscal years 1988-89 and 1989-90 in the General Fund. As a result, travel expenditures are understated and contracted/other services are overstated on the Schedules of Budgeted Program Expenditures by Object and Fund - Budget and Actual by $51,894 and $47,274 for each of the fiscal years ended June 30, 1989 and 1990, respectively.

In our opinion, except for the effects of the matters discussed in paragraphs four, five, and six, the schedules referred to in the first paragraph present fairly, in all material respects, the changes in fund balances, additions and deductions, and the result of operations of the Montana School for the Deaf and Blind for the two years ended June 30, 1989 and 1990, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 31, 1990

MONTANA SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1990

	General Fund	Special Revenue Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1988	$ 0	$ 54,179	$ 0
ADDITIONS			
Fiscal Year 1988-89			
Budgeted Revenue & Transfers In	4,068	385,580	
Prior Year Revenue Adjustments	28,247	(28,325)	
Support From State Of Montana	2,044,227		
Nonbudgeted Revenue & Transfers In			37,805
Fiscal Year 1989-90			
Budgeted Revenue & Transfers In	7,803	383,370	
Nonbudgeted Revenue & Transfers In	30,737		41,484
Prior Year Revenue Adjustments	21,302	(21,302)	
Support From State of Montana	2,344,316		
Prior Year Expenditure Adjustments		275	
Total Additions	4,480,700	719,598	79,289
REDUCTIONS			
Fiscal Year 1988-89			
Budgeted Expenditures & Transfers Out	2,085,013	361,573	
Prior Year Expenditure Adjustments	(8,471)	2	
Nonbudgeted Expenditures & Transfers Out			37,805
Fiscal Year 1989-90			
Budgeted Expenditures & Transfers Out	2,367,325	344,765	
Nonbudgeted Expenditures & Transfers Out	30,737		41,484
Prior Year Expenditure Adjustments	6,096		
Total Reductions	4,480,700	706,340	79,289
FUND BALANCE: June 30, 1990	$ 0	$ 67,437	$ 0

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 18 through 22.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1990

	Charges For Services	Sale of Documents, Merchandise, & Property	Miscellaneous	Federal Indirect Cost Recoveries	Other Financing Sources	Federal	Total
Fiscal Year 1988-89							
GENERAL FUND							
Estimated Revenue	$ 22,000	$1,200	$ 600				$ 23,800
Actual Revenue	0[2]	1,221	2,847[1]				4,068
Collections Over (Under) Estimate	$(22,000)	$ 21	$2,247				$(19,732)
SPECIAL REVENUE FUND							
Estimated Revenue		$1,914		$31,000	$162,000	$204,494	$399,408
Actual Revenue		2,256		21,364	159,131	202,829	385,580
Collections Over (Under) Estimate		$ 342		$(9,636)	$ (2,869)	$ (1,665)	$(13,828)
Fiscal Year 1989-90							
GENERAL FUND							
Estimated Revenue		$4,000	$3,000				$ 7,000
Actual Revenue		3,079	4,724[1]				7,803
Collections Over (Under) Estimate		$ (921)	$1,724				$ 803
SPECIAL REVENUE FUND							
Estimated Revenue				$26,082	$147,307	$171,286	$344,675
Actual Revenue				28,029	170,618	184,723	383,370
Collections Over (Under) Estimate				$ 1,947	$ 23,311	$ 13,437	$ 38,695

[1] See note 3 page 20.

[2] See note 4 page 20.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 18 through 22.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Administration	General Services	Student Services	Education	Total
PERSONAL SERVICES					
Salaries	$ 82,456		$194,972	$ 844,693	$1,122,121
Hourly Wages	48,623	$ 68,210	285,980	261,839	664,652
Other Compensation			50		50
Employee Benefits	28,336	19,478	129,892	269,461	447,167
Total	159,415	87,688	610,894	1,375,993[2]	2,233,990
OPERATING EXPENSES					
Other Services	17,051	9,044	53,801	23,162	103,058
Supplies & Materials	2,672	22,548	72,225	59,539	156,984
Communications	14,432	137	70	3,470	18,109
Travel	4,357	3	567	23,174	28,101
Rent	438	234	651	2,557	3,880
Utilities		95,621			95,621
Repair & Maintenance	763	26,180	513	5,969	33,425
Other Expenses	1,148	936	167	7,705	9,956
Total	40,861	154,703	127,994	125,576	449,134
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	972	269	2,586	5,282	9,109
Total	972	269	2,586	5,282	9,109
DEBT SERVICE					
Leases	11,957		7,900		19,857
Total	11,957		7,900[1]		19,857
TOTAL PROGRAM EXPENDITURES	$213,205	$ 242,660	$749,374	$1,506,851	$2,712,090
GENERAL FUND					
Budgeted	$229,697	$ 246,913	$756,709	$1,200,063	$2,433,382
Actual	213,205	242,660	714,348	1,197,112	2,367,325
Unspent Budget Authority	$ 16,492	$ 4,253	$ 42,361	$ 2,951	$ 66,057
SPECIAL REVENUE FUND					
Budgeted			$ 38,000	$ 329,536	$ 367,536
Actual			35,026	309,739	344,765
Unspent Budget Authority			$ 2,974	$ 19,797	$ 22,771

[1]See note 5 page 20.

[2]See note 9 page 21.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 18 through 22.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	Administration	General Services	Student Services	Education	Total
PERSONAL SERVICES					
Salaries	$ 77,300		$ 160,749	$ 727,365	$ 965,414
Hourly Wages	44,103	$ 60,975	278,964	222,233	606,275
Employee Benefits	25,235	18,014	119,398	227,875	390,522
Total	146,638	78,989	559,111	1,177,473	1,962,211
OPERATING EXPENSES					
Contracted Services	25,896	2,615	58,521	38,807	125,839
Supplies & Materials	3,017	18,409	54,719	70,606	146,751
Communications	11,184	157	205	6,317	17,863
Travel	4,959		442	20,212	25,613
Rent	408	522	380	2,558	3,868
Utilities		103,661			103,661
Repair & Maintenance	1,887	23,074	609	7,212	32,782
Other Expenses	2,221	856	67	7,186	10,330
Total	49,572	149,294	114,943	152,898	466,707
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	1,187	495		2,029	3,711
Total	1,187	495		2,029	3,711
BENEFITS & CLAIMS					
Insurance Payments		2,000			2,000
Total		2,000			2,000
DEBT SERVICE					
Leases	11,957				11,957
Total	11,957				11,957
TOTAL PROGRAM EXPENDITURES	$ 209,354	$ 230,778	$ 674,054	$ 1,332,400	$ 2,446,586
GENERAL FUND					
Budgeted	$ 211,286	$ 237,610	$ 637,656	$ 1,013,100	$ 2,099,652
Actual	209,354	230,778	636,198	1,008,683	2,085,013
Unspent Budget Authority	$ 1,932	$ 6,832	$ 1,458	$ 4,417	$ 14,639
SPECIAL REVENUE FUND					
Budgeted			$ 37,856	$ 329,468	$ 367,324
Actual			37,856	323,717	361,573
Unspent Budget Authority			$ 0	$ 5,751	$ 5,751

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 18 through 22.

MONTANA SCHOOL FOR THE DEAF AND BLIND
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO AGENCY FUND
PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1990

PROPERTY HELD IN TRUST BALANCE, JULY 1, 1988		$ 9,485
ADDITIONS:		
Receipts Fiscal Year 1988-89	$36,357	
Receipts Fiscal Year 1989-90	27,972	
Total Additions		64,329
DEDUCTIONS:		
Disbursements Fiscal Year 1988-89	37,020	
Disbursements Fiscal Year 1989-90	30,125	
Total Deductions		67,145
PROPERTY HELD IN TRUST BALANCE, JUNE 30, 1990		$ 6,669

The school accounts for student account activity in the Agency Fund on a subsidiary system and periodic adjustments are made to the Statewide Budgeting and Accounting System. The schedule presented was prepared from the school's subsidiary system and not all of the information presented is included on the primary accounting records (SBAS). Additional information is provided in the notes to the financial schedules on pages 18 through 22.

Notes to the Financial Schedules

For the Two Fiscal Years Ending June 30, 1990

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana School for Deaf and Blind is required by state accounting policy to use the modified accrual basis of accounting, which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

1. If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

2. The anticipated cost of equipment is expensed in the fiscal year in which a purchase order has been issued.

3. Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

4. Obligations for employee vested annual leave and sick leave are recorded as expenditures when paid.

Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the current fiscal period.

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. The Schedule of Agency Fund - Addition and Deductions is prepared from the school's subsidiary accounting system without adjustments. Accounts are organized on the basis of funds

according to state law. The following fund types are used by the school:

Government Funds

General Fund - accounts for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation authority is required to spend from this fund. The school has special revenue fund accounts for ECIA chapter I and II, the athletic program, national school lunch, and interest and income received from the Department of State Lands.

Trust and Agency Fund - accounts for assets held in trust or as an agent by the school for others. Donations received by the school are accounted for in the Expendable Trust Fund. The school transfers donations to the Montana School for the Deaf and Blind Foundation to manage. The major items accounted for in the Agency Fund by the school are student accounts.

2. MSDB Foundation

The Montana School for the Deaf and Blind Foundation, Inc. was formed in October 1983, pursuant to section 20-8-111, MCA. The foundation is to receive, hold, manage, use, and dispose of real personal property given to the Board of Public Education or to the state of Montana, by purchase, gift, devise, bequest, or otherwise acquired. The proceeds, interest and income thereof are to be used for the benefit of the Montana School for the Deaf and Blind. It is not the intent of the foundation that its gifts to the school be used to supplant taxpayer funds.

The foundation performs these duties under a contract with the Board of Public Education. It files reports with the board demonstrating contract fulfillment. The board appoints the directors of the foundation. At least one member of the foundation is a member of the Board of Public Education. The superintendent of the school is the executive director for the foundation. The foundation activity is not reflected on the

Montana School for the Deaf and Blind's presented financial schedules.

3. Misstatements

During fiscal years 1988-89 and 1989-90, $2,700 and $4,675, respectively, of rental income received by the school was recorded as miscellaneous income. The MSDB Foundation received $4,975 and $5,892 of MSDB School rental revenue in fiscal years 1989 and 1990, respectively. This should have been recorded by the MSDB as rental revenue. As a result, net rental revenue was understated $7,675 in the General Fund in fiscal year 1989, and $10,567 in fiscal year 1990.

The school recorded student travel in the General Fund Student Services Program as contracted/other services. This caused an understatement of student travel and an overstatement of contracted/other services of $51,894 and $47,274 in fiscal years 1988-89 and 1989-90, respectively.

4. Charges for Services

The school estimated they would receive $22,000 in revenue because during fiscal year 1987-88, the school taught one Wyoming resident at the school. However, the contract with the student was not renewed for fiscal year 1988-89. There were no other out-of-state students at the school during our audit period.

5. Leases

MSDB purchased a school bus through a five year lease agreement during fiscal year 1989-90. $7,900 is the annual payment for the lease. The remaining lease liability on the bus is:

Fiscal Year	Principal	Interest
1990-91	$ 5,599	$2,301
1991-92	6,103	1,798
1992-93	6,651	1,249
1993-94	7,249	651
Total	$25,602	$5,999

6. Annual and Sick Leave

Employees at the school accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual leave and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the presented financial schedules of the Montana School for the Deaf and Blind. Expenditures for termination pay currently are absorbed in the annual operational costs of the school. At June 30, 1990, the school had a liability of $32,839 for annual leave and $92,150 for sick leave.

7. Pension Plans

Employees are covered by the Montana Public Employees' Retirement System (PERS) or Teacher's Retirement System (TRS). The school's contributions to these plans are shown below:

	Fiscal Year 1988-89	Fiscal Year 1989-90
PERS	$ 60,630	$ 68,401
TRS	45,739	51,601
Total	$106,369	$120,002

8. General Fund Balance

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

9. Litigation

The school requested an opinion from the Attorney General on whether academic/professional personnel at the school are entitled to annual leave and paid holidays pursuant to a Supreme Court decision which ruled employees (teachers) at Pines Hills School and Mountain View School were entitled to these state benefits. The Attorney General's Opinion is that the teachers at the MSDB are entitled to leave benefits available to other employees of the state.

Based on the Attorney General's Opinion, the school was appropriated $130,714 for fiscal year 1989-90 and $134,275 for fiscal year 1990-91 to cover the increase in these state benefits. As a result of the opinion, MSDB incurred a liability for fiscal years 1987-88 and 1988-89, totaling $161,285. Officials at the MSDB have requested a supplemental appropriation from the 1991 Legislature for this amount.

Related to this opinion, nine employees not covered in the settlement requested back pay from the school. The school agreed to pay them $21,829.

Litigation is still pending between the MSDB and 12 employees not covered by the above settlements. The total estimated liability for these employees is $60,235 plus 100 percent penalty costs for fiscal years 1987-88 and 1988-89. MSDB's legal staff has determined the possibility of loss to be remote.

Agency Response

MONTANA SCHOOL FOR
THE DEAF AND THE BLIND

STATE OF MONTANA

3911 CENTRAL AVENUE GREAT FALLS, MONTANA 59401 (406) 453 1401
VOICE/TDD

STAN STEPHENS, GOVERNOR BILL PRICKETT, SUPERINTENDENT

APR 18 1991

April 17, 1991

Mr. Scott Seacat
Office of Legislative Auditor
State Capitol
Helena, MT 59620

Re: Financial Compliance Audit for the two fiscal years ending June 30, 1990

Dear Mr. Seacat:

The financial compliance audit of the school's accounting records contained four (4) recommendations. The school's response to the recommendations is presented below.

RECOMMENDATION #1: "We recommend the school: (A) Collect federal indirect costs to the fullest extent possible by requesting reimbursement on a timely basis and (B) Record indirect costs in the proper fund as required by state policy."

SCHOOL'S RESPONSE: Concur. The school will collect all indirect costs in accordance with state policy and will revert indirect cost reimbursements within the fiscal year.

RECOMMENDATION #2: "We recommend the school: (A) Implement procedures to gather and record employment data as required by state law, or (B) Seek legislation to amend section 20-8-116, MCA."

SCHOOL'S RESPONSE: Concur. The school will ask the 53rd Legislature to alter this section of MCA. The school will also seek funding for a .73 FTE Career Education Coordinator.

RECOMMENDATION #3: "We recommend the school ensure all checks are endorsed and deposited in accordance with state law and policy."

SCHOOL'S RESPONSE: Concur. The school currently is depositing checks in accordance with state law and policy and all checks are restrictively endorsed.

RECOMMENDATION #4: "We recommend the school record fixed assets and student travel in accordance with state policy."

SCHOOL'S RESPONSE: Concur. The school is coding student travel to the proper expenditure category in fiscal 1991 and fixed assets will be corrected within the fiscal year.

Please thank your staff for the assistance they provided during this audit. Please call me at 453-1401 (ext. 4002), if you or your staff have any questions.

Sincerely,

Bill Sykes
Business Manager